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SUBJECT: DUE DILIGENCE FOR THE SECRETARY OF STATE'S 2006 AWARD FOR  
CORPORATE EXCELLENCE-EMBASSY SAN JOSE NOMINATION

REF: A. STATE 133146 B. STATE 082043 C. STATE 064726

1. Embassy San Jos is pleased to respond to Ref. A questions regarding our nomination of Starbucks for the Secretary of State's Award for Corporate Excellence (ACE) in the Multinational Enterprise (MNE) category (refs b and c), as follows:

A) Could there possibly be any downside or embarrassment caused by the selection of your post's nominee?

Post is not aware of any derogatory information about the company's operations in Costa Rica, where the company is well and favorably known. There is nothing in Starbucks's Costa Rican operations of which Post is aware that is anything but exemplary.

We would note that Starbucks operates in many other countries and that there have been U.S. domestic critics who claimed Starbucks is anti-union, ([http://biz.yahoo.com/ap/060807/starbucks\\_union\\_organizer.html](http://biz.yahoo.com/ap/060807/starbucks_union_organizer.html)). In addition, Starbucks has settled several cases in the National Labor Relations Board, without admitting wrongdoing. ([http://www.okimc.org/newswire.php?story\\_id=1512](http://www.okimc.org/newswire.php?story_id=1512)).

However this seems to be contradicted by the fact that in 2006 Starbucks was voted the 29th best company to work for in the U.S. and in 2005 they were voted 11th best according to <http://en.wikipedia.org/wiki/Starbucks>.

B) Do you have any information concerning job creation in the United States resulting from the operations of the company you nominated?

Starbucks's had approximately 97,500 employees in the U.S. in 2005. During their FY 2005 the company created 15,900 net new jobs in the U.S. according to <http://www.starbucks.com/aboutus/csrannualrep.ort.asp?cookie%5Ftest=1>. The premium coffee supplied from Starbucks's Costa Rican operations represents more than one third of all the coffee they sell and is critical in maintaining the firm's positive reputation and fueling the growth of their brand.

Starbucks says its customers wanted and now demand that the firm operates in a socially responsible way. It therefore encourages social responsibility, especially in the countries that produce its coffee, which is now an important consideration for their patrons when justifying why they should pay premium prices for what was a commodity.

Starbucks is not selling just premium coffee; it has staked its growth and future on selling a socially responsible product. If the firm were to be recognized, it would no doubt use such recognition to emphasize that acting socially responsible makes good economic sense and can therefore lead to the creation of more jobs in the U.S., by far their primary consumer market.

C) What is your assessment of the company's trade and investment

activities with regard to helping stimulate economic growth in the U.S. and increasing American exports (what is the U.S. content of its products)?

According to this press release

(<http://investor.starbucks.com/phoenix.zhtml?c=99518>

&p=irol-newsArticle\_print&ID=891207&highlight ):

"Starbucks now expects to open at least 2,000 net new stores on a global basis in fiscal 2006, an increase of 200 new stores from the Company's previous target of 1,800.

Starbucks is now targeting capital expenditures of approximately \$800 million in fiscal 2006, an increase from the previous target of \$750 million-\$775 million, primarily driven by the acceleration in new store development."

D) What is the state of labor conditions in the company's facilities and are workers unionized?

Starbucks's Costa Rican suppliers are primarily small family owned estates and cooperatives that work with them through Starbucks's Coffee and Farmer Equity (C.A.F.E.) Practices Initiative. This initiative includes a component to encourage high labor standards. There is not a single example of unionized agricultural workers in Costa Rica, but the Costa Rican government believes they police rural working conditions well and effectively enforce their rules against child labor. Starbucks verifies that its suppliers exceed local labor standards.

In the U.S., Starbucks strives to promote partner (employee) satisfaction by ensuring an excellent benefit package. Workers In the U.S. are not unionized.

More extensive corporate responsibility information is available from their 2005 report:

<http://www.starbucks.com/aboutus/csrannualreport.asp?cookie%5Ftest=1>

E) Are you aware of any litigation pending in local courts involving the company?

Post is unaware of any pending legal actions. According to a database of legal actions filed in Costa Rica, there are no legal actions of record against Starbucks.

F) Please confirm that the Chief of Mission and others involved in the nominating process do not hold shares of stock or have other financial interest in the company.

No one at post involved in this nomination holds shares or has any other financial interest in Starbucks.

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